	Executive 11 July 2012	Agenda Item No.

Title	Business Rates Retention
For further information about this report please contact	Mike Snow, David Leech
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	

Contrary to the policy framework:	Yes
Contrary to the budgetary framework:	Yes
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	Yes/No (If No state why below)

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive		Andy Jones
Head of Service		Mike Snow
CMT		Chris Elliott, Andy Jones, Bill Hunt
Section 151 Officer		Mike Snow
Monitoring Officer		Andy Jones
Finance		
Portfolio Holder(s)		Andrew Mobbs
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

1.1 The Department for Communities and Local Government has issued its statement of intent following the consultation on its proposals for Business Rates Retention which, if implemented, could have a profound effect on the funding of billing and precepting authorities.

1.2 The document sets out proposals for a rates retention scheme to replace the current Local Government finance system, under which business rates are distributed as part of formula grant. The main driver for the new scheme is to provide an incentive for authorities to boost economic growth by enabling Councils to keep a share of the growth in business rates in their area. The scheme will take effect from 01 April 2013.

1.3 The rates retention scheme provides local authorities with the opportunity to come together where they wish in order to pool business rates and build growth across a wider area and thereby manage volatility in business rates income levels. Whilst further detail and guidance from the Government is awaited, based on what is currently known there is a strong probability that the Council would achieve a financial benefit from forming a pooling arrangement with one or more neighbouring local authorities in the event of business growth within the pooled area.

1.4 The Government has given local authorities the opportunity to submit non-binding expressions of interest by 27th July 2012 to form pooling arrangements. After this the Government will issue further guidance and all interested parties will be able to satisfy themselves that the proposals offer a strong prospect of pooling arrangements being financially beneficial whilst not representing an unacceptable risk in the event of non-growth.

2. RECOMMENDATION

2.1 That the Executive note the Government’s intention in respect of business rates retention and the operational and financial issues likely to be involved.

2.2 That the Executive supports the case for registering our non-binding interest in pooling business rates with one or more neighbouring authorities.

2.3 That the Executive agree to delegate responsibility to the Head of Finance, in conjunction with the Finance Portfolio Holder, for agreeing the final details which should form part of any expressions of interest.

2.4 That the Executive agree that any final binding pooling arrangements will be subject to a further report in due course.

3. REASONS FOR THE RECOMMENDATION

3.1 The proposals represent a major change in local authority funding. Whilst the scheme can mean a significant increase in resources for some councils where there is a good level of business growth, there is the potential for reduced resources in areas where growth is not forthcoming.

3.2 WDC is a tariff authority (business rates income is greater than our spending baseline) and there are benefits to pooling with a top-up authority (business rates income less than spending baseline). The key financial benefit is that we could keep a higher proportion of business rates growth than we could if we did not pool, although, there is a potential for financial risk in the event of non growth. There are sufficient economic projects in the pipeline to suggest that there is a reasonable expectation of growth in the Warwick District area.

3.4 Expressions of interest for pooling have to be submitted by 27th July although they are non-binding and a final decision on whether or not to join a pool does not need to be taken until November 2012. Discussions are ongoing with Warwickshire County Council and the other Warwickshire billing authorities as well as Coventry City Council. It is proposed that at this stage options are left open to submit an expression of interest with one or more of these authorities before the deadline date.

4. POLICY FRAMEWORK

4.1 The proposals for the Council to see funding grow as business rates base grows leads to a strong incentive for the Council to grant planning permissions for appropriately sited and well planned business development particularly in the area of renewable energy.

5. BUDGETARY FRAMEWORK

5.1 The proposals will impact upon the way the Council is funded from 2013/14. The scheme is intended to be designed so as to incentivise local authorities to encourage development. Whilst this may present opportunities, the converse of this is that it may also present financial risks to local government.

5.2 Pooling with one or more of our neighboring authorities could ensure that we retain a greater proportion of any growth realised than if we decided not to pool.

6. ALTERNATIVE OPTION(S) CONSIDERED

6.1 We could decide not to register an interest in pooling however this could be a lost opportunity and could result in us only retaining a small proportion of any business rates growth as a result of the business rates levy that will be imposed. Given that a non-binding expression of interest can be submitted there is nothing to be lost in taking this course of action consequently the option not to register an interest is not recommended.

7. BACKGROUND

7.1 The DCLG launched the business rates retention consultation on 18 July 2011 followed by eight 'technical papers', to supplement and provide further detail on the initial consultation paper.

7.2 On 19 December 2011, the Government produced its response to the business rates retention consultation, setting out how it intended that the business rates retention scheme will operate. The legislative framework required to introduce the business rates retention scheme forms part of the Local Government Finance Bill, introduced on 19 December 2011. The Government's intention is that the new business rates retention scheme will be implemented from 1 April 2013.

7.3 On 17 May 2012, the Department for Communities and Local Government (DCLG) published five additional papers relating to the proposed Business Rates Retention Scheme. These covered:

- The central and local shares of business rates
- The safety net and levy
- Renewable energy projects
- Pooling prospectus
- The economic benefits of local business rates retention

8. CENTRAL AND LOCAL SHARES

8.1 The Government's statement of intent confirms that the local share will be set at 50 per cent of business rates revenue. The local share will form the baseline for each authority's baseline funding level and tariff and top up amounts. From April 2013, councils will keep all of the growth upon their share, subject to the levy on disproportionate benefit.

8.2 Introducing a proportionate share transfers some of the risk of business rates income not being as high as forecast (nationally) from local authorities to Central Government. However, the change also reduces the level of "reward" for local authorities of business rates growth, with Central Government taking a proportion of the growth.

8.3 The Government has confirmed that, in addition to locally retained business rates, each authority within the scheme will also receive supplementary Revenue Support Grant (RSG) to impose Councils' overall share of the spending review control total in any given year.

8.4 Further details on the grants to be brought into the RSG will be set out in a summer consultation on business rates retention. The amount of Revenue Support Grant for 2013-14 and 2014-15 will be set out in the 2013-14 Local Government Finance Report due in November/December 2012.

8.5 The Government will define in regulations what a billing authority's business rates income is for the purposes of determining the local and central shares. The Government intends that the definition is tied to the business rates payable to the authority, in respect of occupied and empty property, in that year and will take into account the effect of that amount on:

- Mandatory rate reliefs
- Discretionary relief
- Losses on collection
- Hardship relief
- Repayments of refunds in respect of previous years

9 THE SAFETY NET AND LEVY

9.1 The Government intends that there will be a safety net to protect local authorities from significant negative shocks to their income, funded by a levy on authorities that experience disproportionate financial benefit from business rates growth.

9.2 Although the final percentage has yet to be decided the Government proposes to set the safety net threshold in the range of 7.5 per cent to 10 per cent below spending baseline.

9.3 The Government proposes to set a proportionate levy against the amount of business growth an Authority can retain from its share. This will be a 1:1 levy, meaning that for every 1 per cent increase in business rates base, an authority would see no more than a corresponding 1 per cent increase in income as measured against its spending baseline.

9.4 For top-up authorities this will mean that no levy is payable however for tariff authorities the rate will be determined by the ratio of the spending baseline in proportion to the business rates income. For WDC it is calculated that the levy will be in the region of 89% given the large amount of rates collected in proportion to our spending baseline. Consequently 89% of our local share of the growth would be handed over to Government to fund the safety net

9.5 The effects of the levy can be lessened by pooling with a top-up authority.

9.6 Appendix A sets out our current understanding of how a basic retention calculation will work in relation to the levy on any growth in business rates. Further detailed information from the Government is expected in the coming months.

10 POOLING

10.1 The Government has released a prospectus that sets out the process for formally designating pools of rate income across a number of councils. Local authorities are invited to come forward with their pooling proposals by 27 July 2012. The prospectus can be found at the following link; www.communities.gov.uk/publications/localgovernment/businessratespooling

10.2 Local authorities in a pool will be treated as a single body for the purposes of calculating tariffs, top-ups, levy and safety net payments. The prospectus set out illustrations of how a pool might work and how the levy and safety net might be applied to it.

10.3 Pooling arrangements will be voluntary and it would be for pools themselves to decide how to distribute aggregate revenues within the pool. If a pool is dissolved, members of a pool would return to their individual tariff, top-up and levy amounts.

10.4 It will be for local authorities to determine the geographic coverage of a pool, subject to the following requirements:

- There should be a clear rationale for the coverage that is proposed
- Pools should operate on a whole local authority basis, and an authority cannot be a member of more than one pool.
- Authorities will have to nominate one member to act as a lead

10.5 In order to support local authorities develop a pooling proposal, the Government have published an interactive calculator to enable users to explore the potential effects on pooling.

10.6 The Government will have the final say on whether pooling proposals are allowed to go ahead.

10.7 Local authorities could review their pooling arrangements on a yearly basis and if circumstances dictate that the benefits do not outweigh the risks they could terminate the arrangement

11 RENEWABLE ENERGY PRODUCTS

11.1 The regulations will provide that business rates income from renewable energy projects will be retained in full by the Billing Authority and as such the income will be disregarded from calculations in the rates retention scheme on the central/local share, levy, and re-set of tariff and top-up amounts. The total amount of business rates income resulting from a new renewable energy project will be disregarded provided they are entered on the Rating List with effect from 01 April 2013.

11.2 Billing Authorities will be responsible for determining which properties should qualify as a renewable energy project – e.g. where it is a new build, or has been converted or expanded and meets the renewable energy definition, or where renewable technologies have been installed with a separate identifiable impact on rateable value.

12 ADMINISTRATIVE IMPACTS

12.1 By announcing that the Government would keep control of half of all business rates collected by Councils it has diminished the growth benefits incentives that were originally promised. It is further diluted by the imposition of a 1:1 levy which will see many authorities including WDC retain only a small proportion of any increase in business rates. Consequently there will need to be greater focus on the performance and administrative processes in the billing and collection of business rates to ensure maximum benefit is extracted from this scheme. The pooling proposals do present an opportunity to reduce the levy taken from the Government.

12.2 There are many anti-growth factors which we shall be vulnerable to such as insolvencies and write offs which will become a direct cost to authority. If we fail to achieve growth this could have serious financial implications for the authority.